

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF
PENSION COSTS CLAIMED FOR
MEDICARE REIMBURSEMENT BY
BLUE CROSS AND BLUE SHIELD
OF MISSISSIPPI**



JUNE GIBBS BROWN
Inspector General

SEPTEMBER 1997
CIN: A-07-97-01211



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

CIN: A-07-97-01211

September 8, 1997

Mr. John Proctor, III, JD, CFE
Director, Corporate Audit
Blue Cross and Blue Shield of Mississippi
P.O. Box 1043
Jackson, Mississippi 39215-1043

Dear Mr. Proctor:

This report provides you with the results of an Office of Inspector General (OIG), Office of Audit Services (OAS) review titled *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of Mississippi*. The purpose of our review was to determine the allowability of Fiscal Years 1988 through 1996 pension costs claimed for Medicare reimbursement.

For 1988 through 1996, we determined that Blue Cross and Blue Shield of Mississippi (Mississippi) claimed pension costs that are unallowable for Medicare reimbursement. During this period, the allowable Medicare pension costs were \$1,642,204. However, Mississippi claimed pension costs of \$1,776,516 for Medicare reimbursement. As a result, Mississippi claimed \$134,312 in pension costs that are not allowable. The over claim occurred primarily because Mississippi did not base their claim on separately computed Cost Accounting Standards (CAS) pension costs for the Medicare segment.

We are recommending Mississippi revise its Final Administrative Cost Proposals (FACPs) to eliminate the unallowable pension costs.

Subsequent to our review, Mississippi provided information on 9 eligible Medicare segment participants that were not factored into the original calculation of allowable Medicare pension costs. Additionally, Mississippi noted a mathematical discrepancy between the 1995 and 1996 amortization calculations. Our report totals include adjustments for the additional Medicare segment participants and corrections for the mathematical discrepancy between the 1995 and 1996 amortization calculations. Mississippi also objected to us applying prepayment credits retroactively based on revised CAS regulations which took effect in 1996. However, previous CAS regulations included similar provisions which were clarified in the revision. Mississippi's response is discussed further following the recommendations section of this report and included in its entirety as Appendix B.

INTRODUCTION

BACKGROUND

Mississippi has administered Medicare Part A operations, under cost reimbursement contracts, since 1966. Contractors were to follow cost reimbursement principles contained in the CAS, the Federal Acquisition Regulations (FAR), which superseded the Federal Procurement Regulations, and their Medicare contracts.

Since its inception, Medicare has reimbursed a portion of annual contributions paid into contractors' pension plans. To be allowable for Medicare reimbursement, pension costs must be (1) measured, assigned, and allocated in accordance with CAS 412 and 413, and (2) funded as specified by part 31 of the FAR.

The CAS deals with stability between contract periods and requires consistent measurement and assignment of pension costs to contract periods. The CAS costs that are allowable as charges to Medicare include (1) the normal cost and (2) the amortization of the unfunded actuarial liability.

The FAR addresses allowability of pension costs and requires that pension costs assigned to contract periods be substantiated by funding.

In addition to CAS and FAR requirements, the Health Care Financing Administration (HCFA), starting with Fiscal Year 1988, incorporated specific segmentation language into Medicare contracts. To implement segmentation requirements, contracts stipulated procedures for identifying the Medicare segment and assigning pension assets to the segment. Furthermore, the contracts required a separate calculation of pension costs for a segment if such a calculation (versus an allocation) materially affected pension costs charged to Medicare. Under a separate calculation method, a contractor identifies separately the normal costs and amortization for the Medicare segment. Under an allocation method, a contractor determines total plan CAS costs and allocates a share to Medicare. This allocation includes direct and indirect costs.

OBJECTIVE, SCOPE, AND METHODOLOGY

We made our examination in accordance with generally accepted government auditing standards. This audit addresses only one expense category, pension costs. Our objective was to identify allowable CAS pension costs for Fiscal Years (FYs) 1988 through 1996. Achieving our objective did not require that we review Mississippi's internal control structure.

This review was done in conjunction with our audit of Mississippi's pension segmentation (CIN: A-07-97-01209) and unfunded pension costs (CIN: A-07-97-01210). The information obtained and reviewed during that audit was also used in performing this review.

We identified Mississippi's CAS pension costs for the total company and for the Medicare segment. We also determined the extent to which Mississippi funded CAS pension costs with contributions to the pension trust fund. Appendix A contains the details on the pension costs and contributions. Using this information, we calculated CAS pension costs that are allowable for Medicare reimbursement for FYs 1988 through 1996.

The HCFA Office of the Actuary developed the methodology used for computing allowable CAS pension costs based on Mississippi's historical practices.

We performed site work during February 1997 at Mississippi's corporate offices in Jackson, Mississippi. Subsequently, we performed audit work in our OIG, OAS Jefferson City, Missouri field office.

FINDING AND RECOMMENDATIONS

For FYs 1988 through 1996, Mississippi both over and under claimed pension costs resulting in \$134,312 in pension costs that were not allowable for Medicare reimbursement. The over claims occurred because Mississippi did not base its claims on separately computed CAS pension costs for the Medicare segment, while the under claim occurred because of budget constraints. Mississippi should make adjustments to its FACPs as summarized in the following table and discussed in the following paragraphs. See Appendix A for details on the calculations.

Fiscal	Costs <u>Claimed</u>	Allowable <u>CAS Costs</u>	<u>Variance</u>
1988	\$ 20,542	\$ 0	\$ 20,542
1989	0	0	0
1990	0	0	0
1991	0	0	0
1992	0	97,093	(97,093)
1993	271,212	225,793	45,419
1994	419,767	376,746	43,021
1995	516,672	454,798	61,874
1996	<u>548,323</u>	<u>487,774</u>	<u>60,549</u>
Total	<u>\$1,776,516</u>	<u>\$1,642,204</u>	<u>\$134,312</u>

We calculated the allowable CAS pension costs for the Medicare segment and for indirect Medicare operations. Our calculations were based on separately computed CAS pension costs for the Medicare segment and total company CAS pension costs.

For FYs 1988, 1993 through 1996, Mississippi claimed pension costs of \$231,405 that were not allowable for Medicare reimbursement. The costs were unallowable because the costs claimed exceeded the funded portion of CAS computed costs. The over claim occurred because Mississippi did not base its claim on separately computed CAS pension costs for the Medicare segment. Instead, Mississippi based its claim on an allocation of total company contributions.

For FY 1992 Mississippi did not claim \$97,093 for pension costs which were allowable for Medicare reimbursement. The pension costs were allowable because the funded portion of CAS computed costs exceeded the costs claimed. The under claims occurred primarily because of budget constraint.

For FYs 1988 through 1996, Mississippi claimed pension costs of \$1,776,516 for Medicare reimbursement. However, the allowable CAS pension costs were \$1,642,204. As a result, Mississippi claimed pension costs of \$134,312 that are in excess of the allowable CAS pension costs.

Recommendation

We recommend that Mississippi:

- Revise its FACP's for Fiscal Years 1988 through 1996 to eliminate \$134,312 for pension costs in excess of the allowable CAS pension costs.

Auditee Response

Mississippi provided information on 9 eligible Medicare segment participants that were not factored into the original calculation of allowable Medicare pension costs. Additionally, Mississippi noted a mathematical discrepancy between the 1995 and 1996 amortization calculations.

Also, Mississippi stated that during our review they were made aware of prepayment credits for the first time. Mississippi understood that the new CAS regulations took effect in 1996 and that a transition provision provided for an "equitable" transition. Furthermore, Mississippi indicated that (1) retroactive application of the new CAS regulations did not allow for the "equitable" transition, and (2) reflecting retroactive adjustments in one year did not represent an acceptable transition.

OIG Response

After reviewing additional information provided by Mississippi subsequent to our review, we included 9 additional Medicare segment participants in our calculations and made the appropriate adjustments. We also agree that our amortization calculations included a mathematical discrepancy between the 1995 and 1996. This discrepancy occurred due to a change in software. We made the appropriate adjustments.

Contrary to Mississippi's comments, claiming prepayments is not a new CAS concept that we applied retroactively. The original version of CAS 9904.412-50(c)(1) stated *Amounts funded in excess of the pension cost computed for a cost accounting period pursuant to the provisions of this Standard shall be applied to pension costs of future accounting periods*. The March 31, 1995 Amendment changed the designation of the standard to CAS 9904.412-50(a)(4) and added *accounted for as a prepayment credit* to clarify the standard. The revised standard then read *Amounts funded in excess of the pension cost computed for a cost accounting period pursuant to the provisions of this Standard shall be accounted for as a prepayment credit and carried forward to future accounting periods*.

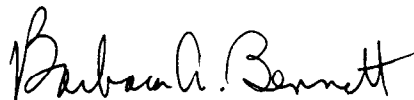
The prepayment credit is the mechanism by which the contractor receives credit for all contributions made to the qualified trust fund. The prepayment credits are applied to CAS pension costs in the order in which the CAS pension costs emerge. All contributions are adjusted with interest until used to satisfy the funding requirements of the CAS. To treat excess contributions otherwise would be inequitable to the contractor.

INSTRUCTIONS FOR AUDITEE RESPONSE

Final determinations as to actions to be taken on all matters reported will be made by the HHS action official identified on the following page. We request that you respond to the recommendation in this report within 30 days from the date of this report to the HHS action official, presenting any comments or additional information that you believe may have a bearing on final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5).

Sincerely,

A handwritten signature in black ink, reading "Barbara A. Bennett". The signature is fluid and cursive, with the first name "Barbara" and last name "Bennett" clearly legible.

Barbara A. Bennett
Regional Inspector General for
Audit Services, Region VII

Enclosure

BLUE CROSS AND BLUE SHIELD OF MISSISSIPPI

CIN: A-07-97-01211

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1996

Description		Total Plan	Other Segment	Medicare Segment
1988	Plan Year Contributions	<u>1/</u> \$ 0	\$ 0	\$ 0
	Discount for Interest	<u>2/</u> 0	0	0
	Present Value of Contributions	<u>3/</u> \$ 0	\$ 0	\$ 0
	Prepayment Credit	<u>4/</u> 0	0	0
	Present Value of Funding	<u>5/</u> \$ 0	\$ 0	\$ 0
	CAS Pension Costs	<u>6/</u> 182,092	154,267	27,825
	Absorbed Credit	<u>7/</u> 0	0	0
	CAS Funding Target	<u>8/</u> \$182,092	\$154,267	\$27,825
	Percentage of Costs Funded	<u>9/</u>	0.00%	0.00%
	Funded CAS Pension Cost	<u>10/</u>	\$ 0	\$ 0
	Allowable Interest	<u>11/</u>	0	0
	Allocable Pension Cost	<u>12/</u>	\$ 0	\$ 0

1989	Plan Year Contributions	\$ 0	\$ 0	\$ 0
	Discount for Interest	0	0	0
	Present Value of Contributions	\$ 0	\$ 0	\$ 0
	Prepayment Credit	0	0	0
	Present Value of Funding	\$ 0	\$ 0	\$ 0
	CAS Pension Costs	149,050	137,266	11,784
	Absorbed Credit	0	0	0
	CAS Funding Target	\$149,050	\$137,266	\$11,784
	Percentage of Costs Funded		0.00%	0.00%
	Funded CAS Pension Cost		\$ 0	\$ 0
	Allowable Interest		0	0
	Allocable Pension Cost		\$ 0	\$ 0

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STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1996

Description	Total Plan	Other Segment	Medicare Segment
1990 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	351,462	338,647	12,815
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$351,462	\$338,647	\$12,815
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
Allocable Pension Cost		\$ 0	\$ 0

1991 Plan Year Contributions	\$ 0	\$ 0	\$ 0
Discount for Interest	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Contributions	\$ 0	\$ 0	\$ 0
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$ 0	\$ 0	\$ 0
CAS Pension Costs	756,986	598,115	158,871
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$756,986	\$598,115	\$158,871
Percentage of Costs Funded		<u>0.00%</u>	<u>0.00%</u>
Funded CAS Pension Cost		\$ 0	\$ 0
Allowable Interest		<u>0</u>	<u>0</u>
Allocable Pension Cost		\$ 0	\$ 0

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FOR FISCAL YEARS 1988 THROUGH 1996

Description	Total Plan	Other Segment	Medicare Segment
1992 Plan Year Contributions	\$895,779	\$703,166	\$192,613
Discount for Interest	<u>(49,440)</u>	<u>(38,809)</u>	<u>(10,631)</u>
Present Value of Contributions	\$846,339	\$664,357	\$181,982
Prepayment Credit	<u>0</u>	<u>0</u>	<u>0</u>
Present Value of Funding	\$846,339	\$664,357	\$181,982
CAS Pension Costs	816,491	634,509	181,982
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$816,491	\$634,509	\$181,982
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$634,509	\$181,982
Allowable Interest		<u>35,956</u>	<u>10,312</u>
Allocable Pension Cost		\$670,465	\$192,294
Fiscal Year Pension Cost <u>13/</u>		335,233	96,147
Medicare LOB Percentage <u>14/</u>		<u>3.01%</u>	<u>90.49%</u>
Medicare Pension Cost <u>15/</u>	\$ 97,093	\$ 10,090	\$ 87,003
1993 Plan Year Contributions	\$1,907,050	\$1,668,255	\$238,795
Discount for Interest	<u>(93,711)</u>	<u>(81,977)</u>	<u>(11,734)</u>
Present Value of Contributions	\$1,813,339	\$1,586,278	\$227,061
Prepayment Credit	<u>32,235</u>	<u>24,698</u>	<u>7,537</u>
Present Value of Funding	\$1,845,574	\$1,610,976	\$234,598
CAS Pension Costs	1,003,378	768,780	234,598
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,003,378	\$ 768,780	\$234,598
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$ 768,780	\$234,598
Allowable Interest		<u>35,876</u>	<u>10,948</u>
Allocable Pension Cost		\$ 804,656	\$245,546
Fiscal Year Pension Cost		737,561	218,920
Medicare LOB Percentage		<u>3.90%</u>	<u>90.00%</u>
Medicare Pension Cost	\$ 225,793	\$ 28,765	\$197,028

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STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1996

Description	Total Plan	Other Segment	Medicare Segment
1994 Plan Year Contributions	\$1,524,081	\$1,380,544	\$143,537
Discount for Interest	<u>(94,674)</u>	<u>(85,758)</u>	<u>(8,916)</u>
Present Value of Contributions	\$1,429,407	\$1,294,786	\$134,621
Prepayment Credit	<u>892,727</u>	<u>686,282</u>	<u>206,445</u>
Present Value of Funding	\$2,322,134	\$1,981,068	\$341,066
CAS Pension Costs	1,474,865	1,133,799	341,066
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,474,865	\$1,133,799	\$341,066
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$1,133,799	\$341,066
Allowable Interest		<u>64,249</u>	<u>19,327</u>
Allocable Pension Cost		\$1,198,048	\$360,393
Fiscal Year Pension Cost		1,099,700	331,680
Medicare LOB Percentage		<u>5.79%</u>	<u>94.39%</u>
Medicare Pension Cost	\$ 376,746	\$ 63,673	\$313,073
1995 Plan Year Contributions	\$2,552,700	\$2,389,121	\$163,579
Discount for Interest	<u>(198,701)</u>	<u>(185,968)</u>	<u>(12,733)</u>
Present Value of Contributions	\$2,353,999	\$2,203,153	\$150,846
Prepayment Credit	<u>915,052</u>	<u>714,601</u>	<u>200,451</u>
Present Value of Funding	\$3,269,051	\$2,917,754	\$351,297
CAS Pension Costs	1,603,661	1,252,364	351,297
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,603,661	\$1,252,364	\$351,297
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$1,252,364	\$351,297
Allowable Interest		<u>75,403</u>	<u>21,151</u>
Allocable Pension Cost		\$1,327,767	\$372,448
Fiscal Year Pension Cost		1,295,337	369,433
Medicare LOB Percentage		<u>8.27%</u>	<u>94.11%</u>
Medicare Pension Cost	\$ 454,798	\$ 107,124	\$347,674

BLUE CROSS AND BLUE SHIELD OF MISSISSIPPI

CIN: A-07-97-01211

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1996

Description	Total Plan	Other Segment	Medicare Segment
1996 Plan Year Contributions	\$2,995,390	\$2,995,390	\$ 0
Discount for Interest	<u>(164,709)</u>	<u>(164,709)</u>	<u>0</u>
Present Value of Contributions	\$2,830,681	\$2,830,681	\$ 0
Prepayment Credit	<u>1,716,936</u>	<u>1,346,422</u>	<u>370,513</u>
Present Value of Funding	\$4,547,416	\$4,177,103	\$370,513
CAS Pension Costs	1,716,936	1,346,422	370,513
Absorbed Credit	<u>0</u>	<u>0</u>	<u>0</u>
CAS Funding Target	\$1,716,936	\$1,346,422	\$370,513
Percentage of Costs Funded		<u>100.00%</u>	<u>100.00%</u>
Funded CAS Pension Cost		\$1,346,422	\$370,513
Allowable Interest		<u>81,066</u>	<u>22,308</u>
Allocable Pension Cost		\$1,427,488	\$392,821
Fiscal Year Pension Cost		1,402,558	387,728
Medicare LOB Percentage		<u>7.44%</u>	<u>98.89%</u>
Medicare Pension Cost	\$487,774	\$104,350	\$383,424

FOOTNOTES

- 1/ We obtained total company contribution amounts and dates of deposit from IRS Form 5500 reports. The contributions included deposits made during the plan year and accrued contributions deposited after the end of the plan year but within the time allowed for filing tax returns.
- 2/ We subtracted interest that is included in the contributions deposited after January 1 of each year to discount the contributions back to their beginning of year value. For purposes of this appendix, we computed the interest as the difference between the present value of contributions, at the valuation interest rates, and the actual contribution amounts.
- 3/ The present value of contributions is the value of the contributions discounted from the date of deposit back to January 1. For purposes of this appendix, we deemed deposits made after the end of the plan year to have been made on the final day of the plan year.
- 4/ A prepayment credit represents the premature funding from the previous year(s). A prepayment credit is created when contributions, plus interest, exceed the end-of-year CAS funding target. A

*BLUE CROSS AND BLUE SHIELD OF MISSISSIPPI**CIN: A-07-97-01211*

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1996

prepayment credit may be carried forward, with interest, to fund future CAS pension costs. The calculation of the prepayment credit is shown in our report of Mississippi's unfunded Medicare segment (CIN: A-07-97-01210).

- 5/ The present value of funding represents the present value of contributions plus prepayment credits. This is the amount of funding that is available to cover the CAS funding target measured at January 1 of each year.
- 6/ The CAS pension costs, computed at January 1 of each year, provides the basis to compute the allowable pension cost that can be charged to Medicare. See our audit of Mississippi's unfunded Medicare segment for more details concerning how the CAS costs were computed.
- 7/ The absorbed credit represents the portion of the accumulated unabsorbed credit that is used to fund the current year CAS pension cost. The credit is used first to fund the CAS pension cost before any current or prepaid contributions are considered for funding. Mississippi did not have any accumulated unabsorbed credit during the period of our review.
- 8/ The CAS funding target must be funded by current or prepaid contributions to satisfy the funding requirement of FAR 31.205-6(j)(3)(i).
- 9/ The percentage of costs funded is a measure of the portion of the CAS funding target that was funded during the plan year. Since any funding in excess of the CAS funding target is considered premature funding in accordance with CAS 412.50(a)(7), we determined that the funded ratio may not exceed 100 percent. We computed the percentage funded as the present value of funding divided by the CAS funding target. For purpose of illustration the percentage of funding has been rounded to four decimals.
- 10/ We computed the funded CAS pension cost as the CAS funding target multiplied by the percent funded.
- 11/ We assumed interest on the funded CAS pension cost is to accrue in the same proportion as the interest on contributions bears to the present value of funding. However, we limited interest by FAR 31.205-6(j)(3)(iii) which does not permit the allowable interest to exceed the interest that would accrue if the CAS funding target were funded in four equal installments deposited within 30 days of the end of each quarter.

BLUE CROSS AND BLUE SHIELD OF MISSISSIPPI

CIN: A-07-97-01211

STATEMENT OF ALLOWABLE CAS PENSION COSTS

FOR FISCAL YEARS 1988 THROUGH 1996

- 12/ The allocable CAS pension cost is the amount of pension cost which may be allocated for contract cost purposes.
- 13/ We converted the plan year allowable CAS pension costs to a fiscal year basis (October 1 through September 30). We calculated the fiscal year pension costs for years 1992 and 1993 as one-half of the prior year's costs plus one-half of the current year's costs. For years 1994 through 1996 we calculated the fiscal year pension costs as one-fourth of the prior year's costs plus three-fourths of the current year's costs. Costs charged to the Medicare contract should consist of the Medicare segment's pension costs plus an allocable portion of the other segment's pension costs attributable to indirect Medicare operations.
- 14/ We calculated allowable pension costs of the Medicare and other segments based on the Medicare line of business (LOB) percentage of each segment. We obtained the percentages for years 1988 through 1996 from documents provided by Mississippi.
- 15/ We computed the Medicare Pension Cost as the Fiscal Year pension cost multiplied by the Medicare LOB percentage.



John H. Proctor, III
Vice President
Legal & Internal Audit

August 13, 1997

Ms. Barbara A. Bennett
Regional Inspector General For Audit Services
Office of Inspector General, Region VII
601 East 12th Street Room 284A
Kansas City, Missouri 64106

Dear Ms. Bennett:

This letter is to serve as our formal response to the three draft reports received on June 13, 1997 that comprised the *Review of Pension Costs Claimed for Medicare Reimbursement by Blue Cross and Blue Shield of Mississippi*. Based on our previous conversations and subsequent request for an extension, our due date to respond to the draft reports is August 13, 1997.

In our efforts to evaluate the findings and recommendations from the three draft reports, we coordinated our review with our actuary through 1994, Mr. David Donald, as well as our current actuary, Mr. Carl Voss. During the subsequent reviews of the draft reports, we noted several issues and concerns that we will address in our formal response. Listed below under the titles of each of the three draft reports are our Plan's formal responses to your findings and recommendations:

Review of Pension Costs Claimed by Blue Cross and Blue Shield of Mississippi **CIN: A-07-97-01211**

OIG Finding

From plan years 1988 through 1996, Blue Cross and Blue Shield of Mississippi claimed \$377,452 in pension costs that were not allowable for Medicare reimbursement.

OIG Recommendation

Blue Cross and Blue Shield of Mississippi should revise its Final Administrative Cost Proposals (FACP) to eliminate the unallowable pension costs.

Plan Response

1. Based on previous inquiries and conversations, we found an additional 9 eligible Medicare employees that were not factored into the original Medicare segment for the 1996 fiscal year. The inclusion of these employees in the Medicare segment calculation resulted in a reduction of the nonallowable amount by \$66,452.

2. Per review of the 1996 CAS Valuation Report provided to us with the draft reports, we noted a significant mathematical discrepancy between the 1995 and 1996 Net Amortization calculations. Based on our review, the signs (positive and negative) for the 1996 calculation were exactly opposite of the same amortization used in the 1995 calculation. Therefore, instead of reducing the 1996 Gross Normal Cost by \$666,858 in amortized costs, the proper CAS Pension cost calculation should have added the \$666,858 in net amortized costs. We understand that the net effect of reflecting the audit findings will result in a reduction of the administrative costs for FY 1988 through FY 1996 of \$134,312.
3. During our initial stages of reviewing the OIG draft reports, we were made aware of prepayment credits for the first time. Based on our understanding of the information provided, these new CAS regulations took effect in 1996. It is our general understanding that a prepayment credit exists when amounts that have been funded (contributed) exceed the CAS pension costs.

Correspondence from Mr. Voss indicated that the transition provision of the new CAS regulation provided for an "equitable" transition. The Health Care Financing Administration (HCFA) apparently chose to apply the new rules retroactively. Based on our review of the CAS pension cost calculations, the prepayment credits were calculated retroactively dating back to 1993, however, the credits were reflected in their entirety in the 1996 calculation of the CAS pension costs.

We would like to formally state that we do not deem the retroactive application of the regulation to be an "equitable" transition, nor do we believe that reflecting the retroactive adjustments in one year is an acceptable application. The retroactive application of the new CAS regulations did not allow the Plan the opportunity to account for the calculation of the prepayment credits when claiming pension costs for the years from 1993 through 1996. Also, we believe the regulations should allow for some type of amortization of the prepayment credits rather than the realization of the entire amount in one fiscal year.

Review of Medicare Contractor's Pension Segmentation

CIN: A-07-97-01209

OIG Finding

From plan years 1988 through 1996, Blue Cross and Blue Shield of Mississippi overstated Medicare segment assets by \$816,524.

OIG Recommendation

Blue Cross and Blue Shield of Mississippi should decrease the January 1, 1996 assets of the Medicare segment by \$816,524. The Plan should also separately compute pension costs for the Medicare segment whenever material differences exist between allocated and separately computed CAS pension costs.

Plan Response

Mr. Voss indicated that the calculations that comprised the overall recommendation were proper. We agree with the findings. Mr. Voss indicated that he would make the appropriate adjustments to ensure the OIG recommendations were properly followed. We also agree to begin transferring assets and liabilities from the segment when a Medicare employee retires and takes an annuity payment or terminates employment and is eligible for deferred vested benefits.

**Review of Unfunded Pension Costs of Blue Cross and Blue Shield of
Mississippi
CIN: A-07-97-01210**

OIG Finding

Since Blue Cross and Blue Shield of Mississippi did not make any contributions to the pension trust fund from 1987 through 1991, the plan did not fund the pension costs identifiable with the Medicare segment. Therefore, the plan accumulated \$482,549 in unfunded pension costs.

OIG Recommendation

Blue Cross and Blue Shield of Mississippi should identify and eliminate \$482,549 in unfunded pension costs from the amortization component of future pension costs.

Plan Response

Based on our inquiry with Mr. Voss, we agree with the calculation. Mr. Voss indicated that he would factor in interest and amortize the balance over the next ten years in order to possibly factor those costs into future CAS cost calculations.

We would like to thank you for your timeliness and efforts to assist us in our questions and concerns while attempting to settle this audit engagement. Should you have any questions or need any further assistance or supporting documentation, please feel free to contact myself at (601) 664-4475, or Bryan Lagg at (601) 664-4673.

Sincerely,



John H. Proctor, III

Vice President, Legal and Internal Audit

cc: Jenenne Tambke, Office of Audit Services (OIG)
Carl Voss, External Actuary (Current)
David Donald, External Actuary (Past)
Dorothy Calhoun, Blue Cross Association